



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 4/30/2001

GAIN Report #TH1047

Thailand

Tobacco and Products

Annual

2001

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Report Highlights:

The report contains updated information on unmanufactured tobacco and cigarettes in Thailand.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Bangkok [TH1], TH

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Executive Summary

After a three-year decline, Thailand's total tobacco production for 2001 is estimated to grow over year 2000's levels due mainly to increased burley production. Despite overall unchanged growing area, favorable weather conditions helped the average yields to improve sharply in 2000/01.

Total domestic consumption for all types of tobacco is estimated to further decline in 2001, reflecting a forecast of a continued reduction in Thailand Tobacco Monopoly's cigarette sales. Despite strong overseas demand and a larger crop size, a relative low carryover held by exporters should lead total tobacco exports to drop in 2001. Meanwhile, imports of flue cured and burley combined in 2001 should decline in line with TTM's demand. Since 1999, TTM has switched from buying U.S. tobacco only to other sources like Brazil, China, and Malawi in order to control its production costs. As a result, the U.S. market share in Thai imports may fall to about 70 percent in 2001.

TTM's cigarettes sales have been jeopardized by foreign brand cigarettes and contraband cigarette sales against its popular brands in recent years. TTM's sales in 2001 are apparently slipping further due mainly to a recent increase in the excise tax. By contrast, imports of cigarettes continued to rise in 2001.

PSD Table						
Country	Thailand					
Commodity	Tobacco, Unmfg., Total (HA)(MT)					
	Revised1999		Preliminary2000		Forecast2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Area Planted	51300	51300	43300	43300	0	41950
Beginning Stocks	34652	34652	45232	45232	48193	40400
Farm Sales Weight Prod	62100	62100	46100	46300	0	50600
Dry Weight Production	54587	54587	40531	40705	0	44496
U.S. Leaf Imports	3265	3265	3300	4872	0	4200
Other Foreign Imports	177	177	430	1644	0	1800
TOTAL Imports	3442	3442	3730	6516	0	6000
TOTAL SUPPLY	92681	92681	89493	92453	48193	90896
Exports	21559	21559	16800	26133	0	23300
Dom. Leaf Consumption	20503	20503	19400	20490	0	19455
U.S. Leaf Dom. Consum.	5227	5227	4760	4120	0	3870
Other Foreign Consump.	160	160	340	1310	0	1400
TOTAL Dom. Consumption	25890	25890	24500	25920	0	24725
TOTAL Disappearance	47449	47449	41300	52053	0	48025
Ending Stocks	45232	45232	48193	40400	0	42871
TOTAL DISTRIBUTION	92681	92681	89493	92453	0	90896

PSD Table						
Country	Thailand					
Commodity	Tobacco,Unmfg.,Flue Cured (HA)(MT)					
	Revised1999		Preliminary2000		Forecast2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Area Planted	21500	21500	19500	19500	0	19000
Beginning Stocks	11319	11319	15121	15121	18271	19231
Farm Sales Weight Prod	23000	23000	20000	20000	0	18000
Dry Weight Production	20240	20240	17600	17600	0	15840
U.S. Leaf Imports	2022	2022	1800	2081	0	1800
Other Foreign Imports	177	177	300	654	0	700
TOTAL Imports	2199	2199	2100	2735	0	2500
TOTAL SUPPLY	33758	33758	34821	35456	18271	37571
Exports	6402	6402	5000	4051	0	5000
Dom. Leaf Consumption	9504	9504	8950	9424	0	8790
U.S. Leaf Dom. Consum.	2571	2571	2360	2450	0	2370
Other Foreign Consump.	160	160	240	300	0	400
TOTAL Dom. Consumption	12235	12235	11550	12174	0	11560
TOTAL Disappearance	18637	18637	16550	16225	0	16560
Ending Stocks	15121	15121	18271	19231	0	21011
TOTAL DISTRIBUTION	33758	33758	34821	35456	0	37571

PSD Table						
Country	Thailand					
Commodity	Tobacco, Unmfg., Burley (HA)(MT)					
	Revised1999		Preliminary2000		Forecast2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Area Planted	14700	14700	14000	14000	0	14300
Beginning Stocks	15138	15138	20504	20504	22324	13722
Farm Sales Weight Prod	30000	30000	20000	20000	0	27000
Dry Weight Production	26400	26400	17600	17600	0	23760
U.S. Leaf Imports	1243	1243	1500	2791	0	2400
Other Foreign Imports	0	0	130	990	0	1100
TOTAL Imports	1243	1243	1630	3781	0	3500
TOTAL SUPPLY	42781	42781	39734	41885	22324	40982
Exports	12343	12343	8000	18169	0	15000
Dom. Leaf Consumption	7278	7278	6910	7314	0	7100
U.S. Leaf Dom. Consum.	2656	2656	2400	1670	0	1500
Other Foreign Consump.	0	0	100	1010	0	1000
TOTAL Dom. Consumption	9934	9934	9410	9994	0	9600
TOTAL Disappearance	22277	22277	17410	28163	0	24600
Ending Stocks	20504	20504	22324	13722	0	16382
TOTAL DISTRIBUTION	42781	42781	39734	41885	0	40982

PSD Table						
Country	Thailand					
Commodity	Tobacco, Unmfg., Oriental (HA)(MT)					
	Revised1999		Preliminary2000		Forecast2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Area Planted	14000	14000	8800	8800	0	7650
Beginning Stocks	8174	8174	9586	9586	7575	7424
Farm Sales Weight Prod	8600	8600	5700	5900	0	5200
Dry Weight Production	7482	7482	4959	5133	0	4524
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	15656	15656	14545	14719	7575	11948
Exports	2414	2414	3500	3613	0	3000
Dom. Leaf Consumption	3656	3656	3470	3682	0	3500
U.S. Leaf Dom. Consume.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	3656	3656	3470	3682	0	3500
TOTAL Disappearance	6070	6070	6970	7295	0	6500
Ending Stocks	9586	9586	7575	7424	0	5448
TOTAL DISTRIBUTION	15656	15656	14545	14719	0	11948

PSD Table						
Country	Thailand					
Commodity	Unmfg.,Dark Air Cured,Cigar (HA)(MT)					
	Revised1999		Preliminary2000		Forecast2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Area Planted	1100	1100	1000	1000	0	1000
Beginning Stocks	21	21	21	21	23	23
Farm Sales Weight Prod	500	500	400	400	0	400
Dry Weight Production	465	465	372	372	0	372
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	486	486	393	393	23	395
Exports	400	400	300	300	0	300
Dom. Leaf Consumption	65	65	70	70	0	65
U.S. Leaf Dom. Consume.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	65	65	70	70	0	65
TOTAL Disappearance	465	465	370	370	0	365
Ending Stocks	21	21	23	23	0	30
TOTAL DISTRIBUTION	486	486	393	393	0	395

Unmanufactured Tobacco

Production

After a three-year decline, Thailand's total tobacco production for 2001 (2000/01, harvested) is estimated to grow over year 2000's levels due mainly to increased burley production. Growing area for total tobacco in 2000/01 was close to the level in 1999/2000. However, unlike the previous year, favorable weather conditions helped average yields improve sharply in 2000/01.

The following are the Area and Farm Sale Weight Production tables for all types of tobacco in Thailand in MY 2000:

	AREA			FSW PRODUCTION		
	(Hectares)			(Tons)		
	1999	2000	2001	1999	2000	2001
Flue cured	21500	19500	19000	23000	20000	18000
Burley	14700	14000	14300	30000	20000	27000
Oriental	14000	8800	7650	8600	5900	5200
Dark Air Cured	1100	1000	1000	500	400	400
TOTAL	51300	43300	41950	62100	46300	50600
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Flue cured

Flue cured production in 2001 is estimated to further decline by 10 percent due mainly to a slightly decreased growing area and lower yields. Planted area decreased in line with a reduction in Thailand Tobacco Monopoly (TTM)'s quota for flue cured. In addition, dry conditions and hot climate unfavorably affected average yields of the medium and late crop flue cured tobacco. Meanwhile, there was leaf curl disease in most of growing areas which affected both yields and quality of tobacco leaf. Due to the overall reduced yields, production costs of flue cured tobacco under the traditional curing facilities in 2001 are estimated to increase slightly to 58-60 baht/kg (0.59-0.60 cents/pound), as opposed to 57-59 baht/kg (0.57-0.60 cents/pound) in 2000. By contrast, the production cost of flue cured tobacco produced from the new bulk curing barns is only 50-52 baht/kg (0.50-53 cents/pound).

As mentioned in previous annual reports, the flue-cured tobacco industry has been characterized by production high-costs and is greatly non-competitive, unless some development will be done to cope with its inefficiency. There have been efforts made by the industry to improve production efficiency. Firstly, nearly all of large curers have replaced their traditional curing barns with the bulk curing system, even though the new system is much more expensive

than the traditional system, it effectively reduces the costs of fuel and labor, and increases the yields of cured tobacco. Production of dry flue cured leaves from these new facilities is about 5.0 million kilograms, accounting for about 25 percent of total production. Secondly, both TTM and some large curers have also made the effort to improve tobacco farming. TTM has promoted a new flue cured variety and growing technique to their contracted farmers (mostly small curers). According to TTM, production under this project was about 300,000 kilograms in 2001. By contrast, existing exporters began to promote production of semi-flavored types of tobacco through large curers in the year 2000 (but an exporter indicated that this tobacco should be classified as an improved-filler type, not semi-flavored type). It is believed that this project will be a new addition for Thai tobacco (especially flue cured), increasing the chance that the industry will survive by adding higher value to tobacco leaves. As Thailand is able to enjoy reduced import duties in other ASEAN countries under the provisions of the AFTA pact, it may begin to supply semi-flavored type tobacco to Malaysia, Philippines, and Indonesia, which are now the production bases for international-brand cigarettes. Production may reach about 600,000 kilograms in 2001 and is selling to exporters at 60-65 baht/kg.

Flue cured production is grown in the High Northern provinces and is divided into early, middle, and late season crops. The early crop, planted on hilly or inclined lands, is preferred by both TTM and exporters due to its thin body and aroma. However, the production has been limited by its higher production cost and high risk in production. The middle and late crops are seeded in October-November and December-January, respectively, following the rice harvest. TTM procures flue cured leaf by allocating production quotas to small contract farmers and large curers. Exporters buy flue cured leaf from large curers and traders. Due to continued reduction in TTM's quota, buying may drop to about 60 percent of total flue cured production in 2001.

Burley

Despite basically unchanged growing area from the 2000's level, burley production in 2001 is estimated to increase by 22 percent to 27,000 tons (FSW basis), due mainly to nearly perfect climatic conditions from the seeding period to maturity stage. Both exporters and TTM reported that the burley production in 2001 could reach 30,000 tons if heavy rains in early March would not have wiped out some burley production in Sukhothai and Phetchabun. Although unusual rains partly affected the quality of burley leaves, the overall quality of the burley production in 2001 has been better than that in 2000, when flooding deteriorated most of harvested burley crop in Sukhothai Province. In addition, both exporters and TTM continue to control the level of chemical residues in tobacco leaf through their before-harvest education to farmers and after-harvest laboratory test on forbidden chemical residues for all shipments of tobacco (including flue cured and burley). The chemical residues being tested include Cypermethrin, Permethrin, Decamethrin, Ethylene Bisdithiocarbonates, Profenofos, DDT, and Methamidophos.

The production cost of burley in 2001 is estimated to be close to the previous year at 38-40 baht/kg (38-40 cents/pound), as increased expenses on fertilizer and gasoline were offset by higher productivity.

Nearly all burley is grown in Phetchabun and Sukhothai Provinces, which are located in

the Lower Northern region of Thailand. Production consists of two main crops; early and late crops. The early crop is seeded in July-September and harvested in October-December while the late crop is planted in November-January and harvested in February-April. Although the early crop is of higher quality and farmers receive a premium for this crop, the higher risks involved (such as flooding and plant disease) limit the early crop production to about 10-15 percent of total burley production. Unlike flue cured tobacco, only small farmers are involved with burley production. These growers usually produce dry burley leaves to fulfill their quota with TTM, and sell the rest of their production to exporters through local traders.

Oriental

Despite an unchanged quota by TTM, oriental tobacco production in 2001 is estimated to decline further from the 2000's level, as Adams Company, the only buyer of oriental tobacco for export, scaledown their contracted tobacco area. According to a trade source, exports of Thai oriental tobacco have been limited by its quality and relatively high cost of production.

Consumption

Reflecting a forecast continued decline in TTM's cigarette sales, total domestic consumption for all types of tobacco (including use of tobacco in contraband and roll-your-own cigarettes) is estimated to drop further in 2001 by 5 percent. Out of total domestic consumption, TTM would utilize about 24,600 tons in 2001, as compared to 25,856 tons in 2000. As indicated in the table below, total use in each type of tobacco by TTM (flue cured, burley and oriental) is estimated to decrease proportionally to TTM's cigarette production. However, with regard to domestic tobacco and foreign (imported) tobacco, it is likely that the TTM's use of domestic tobacco will decrease to a lesser extent than that of foreign tobacco in anticipation of soaring sales for a newly-launched cigarette brand, called Wonder, which contains only Thai tobacco leaves. As a result, the content of foreign leaf should go down to 20.5 percent, as opposed to 21.0 in 2000.

The table below details TTM's actual tobacco utilization by type of tobacco in 1999 and 2000 and an estimate in 2001. TTM's tobacco utilization for its cigarette manufacturing in 2000 appeared to reduce further from the 1999's level.

	1999			2000			2001 (fore.)		
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total
Flue Cured	9,504	2,731	12,235	9,424	2,751	12,175	8,910	2,650	11,560
Burley	7,278	2,656	9,934	7,314	2,681	9,995	7,200	2,400	9,600
Oriental	3,656	0	3,656	3,682	0	3,682	3,436	0	3,436
Dark Air Cured	6	0	6	5	0	5	4	0	4
Total Tobacco	20,444	5,387	25,831	20,424	5,432	25,856	19,550	5,050	24,600

As indicated in the table below, the proportion of each type of tobacco used for TTM's cigarette production in 2001 is estimated to remain unchanged due to a lack of significant change

in type of differently blended cigarette production.

	Percentage of Each Type of Leaf to							
	All Tobacco Used for Cigarette Production							
	1994	1995	1996	1997	1998	1999	2000	2001
Flue Cured	51	49	48	48	48	48	47	47
Burley	35	37	38	38	38	38	39	39
Oriental	14	14	14	14	14	14	14	14
TOTAL	100	100	100	100	100	100	100	100
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Reflecting TTM's high stock for flue cured tobacco (reportedly about 20 months of its use), TTM originally planned to reduce its quota in the crop year 2000/01 (marketed mostly in 2001) by 30 percent from the last season. However, with a pressure from politicians and large curers in flue cured growing area, TTM decided to cut its quota only by 7 percent. The quota for burley in 2000/01 was increased to build up TTM's low stocks, while that for oriental tobacco was unchanged.

	1999/2000			2000/01
	TTM's Quota	Actual	Average	TTM's Quota
		Purchase	Prices	
	(M.T.)	(M.T.)	(Baht/Kg)	(M.T.)
Flue Cured	12,256	12,059	65.36	11,352
Burley	9,403	4,321	40.04	10,532
Oriental	2,927	2,338	39.47	2,927
TOTAL	24,586	18,718	56.28	24,809
Source: Thailand Tobacco Monopoly (TTM)				
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TTM continued to withhold its prices list for all types of tobacco in the crop year 2000/01. Average prices for flue cured in 2001 paid by TTM may drop marginally due to its overall worse quality. Meanwhile, prices for burley and oriental tobacco may be slightly higher than the previous year due to improved leaf quality. Average prices paid by TTM in 2000 were 65.36 baht/kg (74 cents/pound) for flue-cured, 40.04 baht/kg (45 cents/pound) for burley, and 39.47 baht/kg (45 cents/pound) for oriental tobacco, respectively.

Mainly because of active export demand and weakened Thai currency, prices for all tobacco paid by exporters may increase to some degree in 2001. Exporters are currently paying about 55-65 baht/kg (55-66 cents/pound) for flue cured and 35-40 baht/kg (35-40 cents/pound) for burley. According to the Excise Department, average prices for flue cured paid by exporters rose from 42.38 baht/kg (51 cents/pound) in 1999 to 55.22 baht/kg (62 cents/pound) in 2000. Meanwhile, average prices for burley paid by exporters in 2000 were unchanged at 37.04 baht/kg (42 cents/pound).

Trade

Despite increased domestic production in general, decreased carryover held by exporters should see total tobacco exports (excluding dark air cured) drop from 25,833 tons in 2000 to about 22,000-23,000 tons in 2001. Exporters reported that export demand for flue cured and burley leaf has been strong in 2001 due mainly to decreased supply availabilities of such major growing countries as Brazil, Zimbabwe, and Malawi. In addition, an anticipated depreciation in Thai currency for most of the year 2001 is helping the competitiveness of Thai tobacco.

While Thailand has thus far exported filler-type tobacco to overseas market, TTM imports flavored-type tobacco (only flue cured and burley) for its cigarette blending. According to TTM, imports of flue cured and burley in 2001 are estimated to drop following a continued decline in TTM's tobacco leaf use.

Although TTM considers U.S. flue cured and burley as the most superior tobacco among all suppliers of flavored-type tobacco, TTM has attempted seriously to diversify sources of imported leaf from the U.S. only in the past to other sources. This is mainly because TTM wanted to maintain its profit, while its cigarette sales have eroded and the cost of imported leaves has increased substantially (especially U.S. leaf following a sharp reduction in Thai currency values against U.S. dollar). Sources report that TTM can save 20-30 percent of import value when it buys leaf from non-U.S. suppliers. As a result, TTM switched to buy Chinese flue cured in 1999 and purchase Brazilian flue cured in 2000 at the expense of U.S. leaf. The U.S. market share for flue cured may drop further from 76 percent in 2000 to about 70 percent in 2001. As for burley, it is the first time in recent history that TTM purchased burley from Malawi in 2000. Although TTM may suspend buying Malawian burley in 2001, TTM is likely to acquire a portion of imported burley from Brazil. The U.S. market share for burley in 2001 may decrease to 65-70 percent, as opposed to 74 percent in 2000.

Following are the tables of export volume and value of tobacco by type in 1999 and 2000:

THAILAND: Export Volumes and Values of Total Tobacco (excl. dark air cured)				
	1999 (Jan-Dec)		2000 (Jan-Dec)	
	M.T.	US\$ 1,000	M.T.	US\$ 1,000
1. U.S.A.	5,345	10,731.14	5,790	15,117.16
2. Australia	368	911.66	452	1,467.94
3. Belgium	1,096	2,869.43	1,598	3,166.06
4. Germany	1,784	3,696.74	2,334	4,212.24
5. U.S.	1,906	3,921.99	2,110	4,736.50
6. Malaysia	517	1,431.71	834	2,078.78
7. Russian Fed	887	672.05	1,481	1,454.93
8. Egypt	1,474	2,280.81	3,214	6,865.74
9. Netherlands	264	625.03	761	1,703.25
10. Taiwan	0	0.00	2,574	7,693.79
11. Others	7,518	19,090.90	4,685	9,303.05
TOTAL	21,159	46,231.46	25,833	57,799.44
Source: The Department of Customs				

THAILAND: Export Volumes and Values of Flue Cured in 1999 and 2000				
	1999 (Jan-Dec)		2000 (Jan-Dec)	
	M.T.	US\$ 1,000 1/	M.T.	US\$ 1,000 2/
1. U.S.A.	356	546.39	6	1.15
2. Australia	339	795.26	430	1,384.03
3. Belgium	866	2,365.78	327	506.62
4. Germany	721	1,559.22	1,134	1,853.18
5. Norway	202	557.80	146	384.70
6. U.K.	973	2,134.19	374	916.80
7. Singapore	0	0.00	179	218.67
8. Malaysia	253	632.57	517	1,203.36
9. Russian Fed.	289	361.52	297	311.03
10. Turkey	20	43.81	210	339.79
11.Others	2,383	6,387.81	431	744.58
TOTAL	6,402	15,384.35	4,051	7,863.91
Source: The Department of Customs				

THAILAND: Export Volumes and Values of Burley Tobacco				
	1999 (Jan-Dec)		2000 (Jan-Dec)	
	M.T.	US\$ 1,000	M.T.	US\$ 1,000
1. U.S.A.	4,763	10,043.74	5,632	14,870.06
2. Belgium	230	503.65	1,271	2,659.44
3. Canada	792	1,654.19	376	732.00
4. Germany	1,063	2,137.52	1,200	2,359.06
5. France	1,013	2,206.83	345	858.46
6. U.K.	933	1,787.80	1,736	3,819.70
7. Egypt	41	0.11	856	1,535.78
8. Netherlands	264	625.03	761	1,703.25
9. Russian Fed	598	310.53	1,184	1,143.90
10. Taiwan	0	0.00	2,574	7,693.79
11. Others	2,646	6,540.26	2,234	4,999.64
TOTAL	12,343	25,809.66	18,169	42,375.08
Source: The Department of Customs				

Import Trade Matrix			
Country	Thailand		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan-Dec	Units:	Tons
Imports for:	1999		2000
U.S.	3265	U.S.	4872
Others		Others	
China	177	Brazil	653
		Malawi	990
Total for Others	177		1643
Others not Listed	0		0
Grand Total	3442		6515

Import Trade Matrix			
Country	Thailand		
Commodity	Tobacco, Unmfg., Flue Cured		
Time period	Jan-Dec	Units:	Tons
Imports for:	1999		2000
U.S.	2022	U.S.	2081
Others		Others	
China	177	Brazil	653
Total for Others	177		653
Others not Listed	0		0
Grand Total	2199		2734

Import Trade Matrix			
Country	Thailand		
Commodity	Tobacco, Unmfg., Burley		
Time period	Jan-Dec	Units:	Tons
Imports for:	1999		2000
U.S.	1243	U.S.	2791
Others		Others	
		Malawi	990
Total for Others	0		990
Others not Listed	0		0
Grand Total	1243		3781

Policy

There has been no change in import tariff, non-tariff barriers, and price support program since the last Annual Report. The quota for unmanufactured tobacco, under WTO agreements, is 6,333 tons in 2001. The current in-quota tariff rate for unmanufactured tobacco is 30 percent, against 74.4 percent for the above-quota tariff rate. However, the import tariff under the general tariff schedule has been reduced to the same rate as the in-quota tariff rate (30 percent) since December, 1998.

Marketing

There has been no significant change in marketing development opportunities for U.S. tobacco leaf, marketing channels, or competitor activities since the last Annual Report.

PSD Table						
Country	Thailand					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised1999		Preliminary2000		Forecast2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Filter Production	33390	33390	32300	32289	0	30400
Non-Filter Production	525	525	500	446	0	400
TOTAL Production	33915	33915	32800	32735	0	30800
Imports	7000	7000	8000	8000	0	8500
TOTAL SUPPLY	40915	40915	40800	40735	0	39300
Exports	804	804	600	596	0	450
Domestic Consumption	40111	40111	40200	40139	0	38850
TOTAL DISTRIBUTION	40915	40915	40800	40735	0	39300

Manufactured Tobacco, Cigarettes

Production

Total cigarette production (including contraband cigarettes) in 2001 is estimated to decline further to a greater extent than that in 2000, due mainly to recent higher retail prices for TTM's cigarettes and the unfavorable economic situation. Of total cigarette production, TTM's cigarette production is likely to decrease from 31.795 billion pieces in 2000 to about 30.770 billion pieces in 2001. Meanwhile, production of contraband cigarettes, which mostly imitate the TTM's Klongthip brand, should increase again due to attractiveness in margin generated by the higher excise tax.

In 2000, TTM's cigarette production dropped again by one percent in line with its sales. Out of its production of 32.023 billion pieces, TTM produced 31.349 billion pieces for filter cigarettes and 0.446 billion pieces for non-filter cigarettes. It should be noted that a share of filter cigarettes production continued to increase (from 98.4 percent of total TTM production in 1999 to 98.6 percent in 2000) at the expense of non-filter cigarettes.

With a pressure from heavier competition by foreign cigarettes, even by domestic contraband cigarettes, TTM has tried to promote a cost-saving campaign in its organization through an early retirement program, closing some tobacco stations in upcountry, and seeking new sources of less expensive imported tobacco. However, the production cost of TTM's cigarette production in 2001 may increase by 2-5 percent in 2001 following higher expenses for fuel, tobacco leaves, cigarette paper, and packaging materials.

Consumption

The overall cigarette consumption (including inventories) in 2001 is estimated to decline by 3 percent from the 2000's level. A recent increase in retail prices for all legal cigarettes and the unfavorable economic situation is likely to affect TTM's cigarette sales again in 2001. Meanwhile, sales of legally imported cigarettes should grow further due to their brand power and a good distribution system. In addition, sales of illegal cigarettes (both smuggled cigarettes and domestic contraband cigarettes) are estimated to increase in 2001 because of their advantage in higher unpaid duties over legal cigarettes.

After retail prices for all cigarettes were unchanged in 2000 and early 2001, the government's increased excise tax on cigarettes in March 2001 has led retail prices to rise across the board. Retail prices for TTM's cigarettes rose by 2-5 baht/pack (4-11 cents/pack), while those for foreign brand cigarettes increase by 5-7 baht/pack (11-16 cents/pack). The TTM's most popular brand (Klongthip 90) is currently sold at 35 baht/pack (78 cents/pack), as opposed to 37-38 baht/pack (82-84 cents/pack) for such competing foreign brands as L&M (produced by Philip Morris) and More (produced by RJR).

There has been no new official survey on smoking behavior in Thailand since 1999. The National Statistics Office (NSO) reported in its 1999 survey that, compared to the 1996 survey, the number of regular smokers in Thailand dropped further by 9 percent from 11.25 million persons in 1996 to 10.23 million persons in 1999. The amount of smokers accounted for 20.5 percent of the population with more than 10 years of age. The number of non-regular smokers, however, increased sharply (over 30 percent) from 1.29 million persons to 1.76 million persons in 1999. Most regular smokers are still male (94 percent). For both the male and female population, regular smokers are aged over 25 years.

Trade

Total cigarette imports (including illegal imports) are estimated to grow further in 2001, in line with an anticipated increase in foreign brand cigarette sales. Legal imports of cigarettes may reach 7.5-8.0 billion pieces in 2001, while smuggled imports will be about 500-800 million pieces.

According to the Customs Department, Thailand's cigarette imports in 2000 registered a growth of 23 percent over those in 1999. Almost 90 percent of total imports was shipped from four ASEAN countries (i.e., Indonesia, Malaysia, Philippines, and Singapore), which are the production base for international brand manufacturers. Imports from Indonesia jumped from none to 3,750 tons, mainly because importers are able to enjoy the most favored import duties (only 10 percent) from cigarettes produced in Indonesia (also Philippines) under the ASEAN Free Trade Area (AFTA), against higher duties for cigarettes from Malaysia and Singapore (22.5 percent). Trade sources estimated that about 90-95 percent of total imported cigarettes are U.S. brands, with the balance going to Asian and European brands.

Exports of cigarettes appeared to drop in 2000, and are estimated to decline further in 2001, as the TTM has stringently controlled the illegal re-export of TTM's cigarettes from neighboring countries to Thailand along its border.

Import Trade Matrix			
Country	Thailand		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	Tons
Imports for:	1999		2000
U.S.	274	U.S.	154
Others		Others	
Switzerland	20	Switzerland	8
China	29	China	28
Germany	17	Germany	8
U.K.	418	U.K.	437
Japan	12	Japan	64
Malaysia	2008	Malaysia	1392
Indonesia	0	Indonesia	3750
Philippines	615	Philippines	751
Singapore	2131	Singapore	151
Total for Others	5250		6589
Others not Listed	19		85
Grand Total	5543		6828

Export Trade Matrix			
Country	Thailand		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	Tons
Exports for:	1999		2000
U.S.	2	U.S.	0
Others		Others	
China	77	China	128
Indonesia	9	Indonesia	25
Ireland	14	Denmark	23
Kampuchea	3	Kampuchea	1
Laos	22	Laos	17
Myanmar	486	Myanmar	163
Malaysia	151	Malaysia	125
Singapore	4	Singapore	8
Taiwan	7	Taiwan	12
Vietnam	26	S. Korea	51
Total for Others	799		553
Others not Listed	3		43
Grand Total	804		596

Policy

Tariff and Other Taxes

In an effort to cover its running budget deficit and to curb imports, the Government agreed to raise excise taxes on alcoholic beverages and cigarettes on March 27, 2001. The excise tax on cigarettes increased from 71.5 percent to 75 percent. Although the percentage increase was 3.5 percent, the impact on retail prices for cigarettes was huge due to the automatic triggering of other tax increases.

According to Excise Department, the excise revenue for cigarettes in Fiscal Year 2000 increased by 6 percent from 26.655 billion baht (approx. USD 592 million, based on the 2001 currency rate) to 28.134 billion baht (USD 625 million).

In addition to the excise tax, importers must pay an import duty of 10-60%, varying for different export origins. For imports which originate in non-ASEAN countries, the import tariff is 60%. In the case that the imports originate in ASEAN countries and the local content of cigarette manufacturing exceeds 40 percent of total cost, importers are now able to enjoy lower import duties as a result of the AFTA pact implementation. However, the applied rates for cigarettes from these ASEAN countries differ. As for cigarettes which are originated in

Indonesia and Philippines which are on the inclusive list, the applied import duty in 2001 is 10%. For those produced in Malaysia and Singapore, the import duty is higher, i.e., 22.50%. Due to this variance, some importers already diverted the sources of their international brand cigarettes, from Malaysia and Singapore to Indonesia and Philippines.

Based on the bill on Decentralization for Municipal Administration Organization which was approved in late 1999, the new type of municipal tax and a special tax collected for the Fund for Health might be added to the current duties on cigarettes. However, the tax provision has not been finalized yet.

Non-Tariff Barriers

As mentioned in the 2000 Annual Report, with a request from TTM, the Customs Department investigated some importers of cigarettes on possible underpricing declaration on CIF value and raised price uplifts for import duty valuation on nearly all imported cigarettes. The price uplifts on cigarette brands competing with TTM's cigarettes were raised by 25-54%. Although there was a move by a few cigarette importers (which are subsidiary companies of American multinational cigarette manufacturers) to negotiate with the Customs Department and request for a transparent investigation, there has been no progress on negotiations. Post believes that this practice is another example that the Customs Department has not complied with the WTO Customs Valuation Agreement, under which transaction value is the standard for assessing customs duties. An increase in price uplifts by the Customs Department was apparently arbitrary and non-transparent.

Quality, Safety, & Health

The Ministry of Public Health (MOPH) continued to play an important role in smoking control. It is enforcing the regulations on health warnings on cigarette labels (occupying at least the one-third of space on a pack), a ban on cigarette advertisement, prohibition on sales to young people (aged under 18 years), smoking prohibitions in public places, and the disclosure of cigarette ingredients sold in Thailand. In addition, MOPH is actively developing anti-smoking campaigns in the mass media and pushing an increase in cigarette taxes. According to trade sources, MOPH is making an effort to regulate graphic health warnings on cigarette labels in the near future.

Marketing

There has been no significant change in marketing development opportunities for U.S. cigarettes, marketing channels, or competitor activities in recent years.